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SUBJECT: NUEVO LEON ECONOMIC OUTLOOK IMPROVING SLIGHTLY

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¶1. (SBU) Summary: The State of Nuevo Leon's Secretariat of Economic Development (SEDEC) estimates that the 2009 GDP decline for the state will be less than the national average and that employment will increase during the remaining months of the year. SEDEC expects monthly exports to stabilize at around US\$ 1.1 billion per month. Although many small companies have closed, large companies are in a position to resume higher production when demand increases. However, the state's recovery will depend on the speed of the U.S. economic recovery and the severity of an expected increase in H1N1 influenza cases in the fall. End summary.

GDP Decline Estimated to Be Less than National Average,
Unemployment Higher

¶2. (SBU) Figures recently compiled by the State of Nuevo Leon's Secretariat of Economic Development (SEDEC) forecast that 2009 GDP in the Mexican border state will decline by 5.7 percent, less than its prediction of a 6.3 percent drop in the national GDP. State employment, heavily dependent on exports to the U.S., has suffered more than the national average during the recession according to Mexican Institute of Social Security (IMSS) figures. The automotive, electrical products and metal products sectors have been most affected. (Note: IMSS figures are only a rough estimate of the employment situation in Mexico. Mexico has a significant informal economic sector, which does not participate in the IMSS, making aggregate unemployment figures unavailable. End note.)

Decline in Exports Expected to Stabilize

¶3. (SBU) SEDEC Director of Economic Studies David Martinez told EconOff on July 29 that he expected a halt in the decline of Nuevo Leon exports as the U.S. economy stabilized and diminished inventories are replenished. He estimated an average of US\$ 1.25 billion in monthly exports for the rest of 2009, down from around US\$ 1.7 billion monthly before the recession hit in the second half of 2008.

Small Companies Close, Larger Companies Cut Costs

¶4. (SBU) Martinez noted that small companies had borne the brunt of the recession and many had closed. Larger companies, with greater resources, have weathered the recession better. They have cut personnel costs through layoffs and cutting back on workers' hours and so could rapidly resume higher production rates. Monterrey AmCham officials told EconOff that companies have cut nonessential costs, such as membership dues in trade organizations, resulting in a 20 percent decrease in AmCham membership over the past year.

Foreign Investment Postponed

¶5. (SBU) Martinez stated that many foreign companies have postponed investments in Nuevo Leon due to the current economic climate. SEDEC Undersecretary for Foreign Investment and Trade Andres Franco estimated that foreign direct investment for 2009 would be around US\$ 1.1 billion, a drop of US\$ 400 million from ¶2008. However, he said this was better than SEDEC had expected.

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Better Days Ahead?

¶6. (SBU) Martinez was optimistic about the state's economic future. He pointed to studies showing an improvement in consumer confidence in the country and predicted employment would continue to improve in Nuevo Leon. (Note: The state was one of the few in Mexico to post a net job increase in June, albeit a modest one - 4,667 jobs per IMSS figures. End note.) Martinez predicted a quicker recovery in Nuevo Leon than in other parts of the country due to the state's reliance on the now stabilizing U.S. market.

Hurdles Ahead

¶7. (SBU) He was reluctant to give a timeframe for Nuevo Leon's rebound from one of the worst economic downturns in the last 20 years, noting that this would depend on the speed of U.S. economic recovery. Martinez pointed to the recovery period after the 2000 - 2001 recession, almost 44 months, and noted that this recession was worse in terms of GDP decline. An intensification of the H1N1 influenza epidemic could also forestall the state's economic upturn, he added.

Comment

18. (SBU) Nuevo Leon's export-driven economy is well-positioned to benefit from a U.S. economic upturn and should rebound more quickly than most other Mexican states when that occurs. However, the state faces a number of hurdles along the way. Economic data in the state focuses on the activity of large companies, so the damage to smaller companies and the informal sector may not be immediately remediable by brighter economic news. The uncertain future of the U.S. automotive industry may also delay a recovery to post-recession prosperity. Finally, a resurgence of the H1N1 epidemic in the fall could hobble the recovery for some time to come.

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